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LINES

STUDY OF GUARANTEED
STUDENT/LOAN BANKRUPTCY
OFFICE OF EDUCATION/
DEPARTMENT OF HEALTH, EDUCATION,
AND WELFARE

~~B-164031(1)~~
HRD-77-80/83
4/15/77

RELEASED

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RESTRICTED

We reported to the Chairman, Subcommittee on Postsecondary Education, House Committee on Education and Labor, and to the Chairman, Subcommittee on Civil and Constitutional Rights, House Committee on the Judiciary pursuant to a joint request dated ~~August 5, 1976~~. We analyzed a sample of guaranteed student loan bankruptcy claims, using information from the Office of Education, State guarantee agencies, and bankruptcy courts. Our report drew a profile of the average student who sought relief, through bankruptcy, of a guaranteed student loan obligation.

During consideration of H.R. 6 (a bill revising the Bankruptcy Act), the subcommittees sought information which would help them decide whether federally insured or guaranteed loans should/should not be nondischargeable for a five year period from the time the borrower's repayment schedule begins.

~~Because the report does not contain findings, an index was not prepared.~~

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HRD-77-80

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April 15, 1977

The Honorable William Ford
Chairman, Subcommittee on
Postsecondary Education
Committee on Education and
Labor
House of Representatives

HISE01107

Dear Mr. Chairman:

This letter is in further response to the August 5, 1976, request from the former Chairman of your Subcommittee and the Chairman of the Subcommittee on Civil and Constitutional Rights, House Committee on the Judiciary, that we perform a study of the discharge in bankruptcy of educational debts resulting from federally insured or guaranteed loans under parts B and E, title IV of the Higher Education Act of 1965, as amended. Our December 23, 1976, letter to you outlined our proposal to analyze a sample of guaranteed student loan borrowers who had petitioned for bankruptcy and to provide a profile of the borrowers. We have completed our review of 579 randomly selected cases using information from the files of the Office of Education, the State guarantee agencies, and the bankruptcy courts.

Our analysis of 541 of these cases showed the petitioners to have

- average earnings of \$6,378 for the year prior to filing bankruptcy;
- average total debts of \$14,115, of which \$4,138 were educational debts;
- average assets of \$4,454; and
- an average guaranteed student loan made for approximately \$2,600 of which an average claim for approximately \$2,300 was paid.

The above averages do not include 22 business bankruptcies or 16 cases which had extremely high debts. However, these are included in our computation for the overall sample (see enclosure II).

HRD-77-80

GUARANTEED STUDENT LOAN PROGRAM

Under the Guaranteed Student Loan program, loans are made to students by participating lenders such as commercial banks, savings and loan associations, credit unions, and educational institutions. These loans are insured by the Office of Education or by State or private nonprofit guarantee agencies which have reinsurance agreements with the Office. In either case, if an individual fails to repay his loan because of default, bankruptcy, death, or disability, the lender may submit a claim to the Office of Education or the guarantee agency and receive payment for the unpaid balance. The Federal Government pays 100 percent of all lender losses on death and disability claims. On default and bankruptcy claims, the Federal Government pays 100 percent of lender losses on Office of Education insured loans and reimburses State or nonprofit agencies for 80 percent of their payments to lenders.

Borrowers are expected to begin repayment 9 to 12 months after they cease to be at least a half-time student. The repayment period normally extends from 5 to 10 years with a minimum repayment of \$360 annually. However, the Education Amendments of 1976 allow the borrower and lender to agree to payments of less than \$360. Repayment may be deferred for military, Peace Corps or Vista service, or for resumption of full-time study. Also, if the student is seeking employment but is unable to find it, a one-time, one-year payment deferment may be allowed.

SELECTION OF SAMPLE

We obtained information on bankruptcy claims paid during the period July 1, 1975, through June 30, 1976, from the Office of Education headquarters and the guarantee agencies participating in the Guaranteed Student Loan program. After selecting 648 cases at random, we requested information from the appropriate bankruptcy courts and we received responses for 606 cases.

Office of Education headquarters sample

When we started our work in September 1976, an Office official provided us a report which showed that 3,350 bankruptcy claims for over \$5 million were paid under the Federal program for the year ending June 30, 1976. Since then, we have been given other figures which program officials said are more reliable. These figures show that 4,414 claims for about \$5.7 million were paid for the period.

Bankruptcy claims for the Federal program were paid by the Office of Education headquarters in Washington until the spring of 1976 when Department of Health, Education, and Welfare regional offices were given the responsibility to pay such claims. As a result, only 751 bankruptcy claim files were on hand at headquarters. An Office of Education official said the bankruptcy claims at headquarters were similar to the bankruptcy claims at the regional offices and differed only in that they were paid early in the fiscal year by the headquarters. In a November 30, 1976, meeting with your office and the Subcommittee on Civil and Constitutional Rights office, it was agreed that we would select our sample from the files on hand at Office of Education headquarters. From the 751 headquarters files we randomly selected 20 percent, or 150 cases, and were able to obtain records for 137 of these cases; Office of Education officials were unable to locate 13 cases.

Guarantee agency sample

The Office of Education's records showed that obligations to guarantee agencies for 1,715 bankruptcy claims totaled over \$2.9 million during the year ending June 30, 1976. However, the amounts paid by guarantee agencies to lending institutions on such claims were higher because the Office of Education's reimbursement normally covers only 80 percent of the amount of the agencies' claims.

Guarantee agencies, in responding to our request for information on guaranteed student loan bankruptcies, reported that 2,574 bankruptcy claims totaling about \$7.1 million were paid for the above period. This was about 50 percent more claims than the Office of Education had recorded. Part of this difference results from post-default bankruptcies--guaranteed student loans on which the individual originally defaulted. Such claims are paid by State guarantee agencies and reported to the Office of Education as a default claim. Subsequent to the default, the individual files bankruptcy. However, claims categorized as a default remain in that category for Office of Education recordkeeping purposes even though a bankruptcy subsequently occurs. Therefore, Office of Education figures on guarantee agency bankruptcy claims are understated, and losses due to bankruptcy are higher than actually reported to the Office.

In addition, some of the guarantee agencies, in responding to our request, reported bankruptcies filed under chapter 13 of the Bankruptcy Act. Under these bankruptcies, which are designed to liquidate all debts in 3 years, the bankruptcy courts determine what portion of the petitioner's wages can be applied to outstanding debts. Such cases, known as

(chapter 13) wage-earner plans, are not included in cases reported to the Office of Education.

From the 2,574 State guarantee agency cases, we randomly selected 511 cases, or about 20 percent, for our review. Combined with the 137 Office of Education headquarters cases, our overall sample contained 648 bankruptcy cases.

Information from bankruptcy courts

Using our sample of 648 cases we contacted the appropriate bankruptcy courts to obtain information from their records. Enclosure I shows the geographic distribution of our sample.

For each case, we requested copies of

- the statement of affairs which shows the petitioner's personal data, including employment status and income;
- the A-1 debt schedule which lists priority debts such as wages and taxes;
- the A-2 debt schedule which lists secured debts such as home mortgages, automobile loans, etc.;
- the A-3 debt schedule which shows nonpriority unsecured debts such as educational loans, medical expenses, credit card purchases, etc.; and
- the summary of debts and assets which shows the net worth of the bankruptcy petitioner.

Of the 648 randomly selected cases, we received responses from the bankruptcy courts on 606. In our analysis we considered only those educational debts that were identifiable on the petitioners' A-3 debt schedules. In addition to guaranteed student loans, we identified National Defense/Direct Student Loans, veterans benefits overpayments, and other Federal or school loans.

Twenty-seven of the cases in our sample were chapter 13 wage-earner plans. These cases were not included in our analysis because the bankrupt's debts are not discharged as in a regular bankruptcy. However, we did check on the status of the 27 cases. In 10 cases, court-approved payments had been made towards the guaranteed student loan debt, although at the time we inquired, only 6 were current. For 17 cases, no payments had ever been made towards the guaranteed student loan debt, and 6 cases had been converted to regular bankruptcy.

Included also in our sample were 22 cases where the petitioner filed as an individual engaged in business. These business bankruptcies made up less than 4 percent of the sample, yet accounted for over 11 percent of the total debts. Also, some of the petitions in our sample listed debts which were greatly in excess of the majority of the cases. For example, there were 16 cases for which the A-3 debts (unsecured, nonpriority) were \$40,000 or more. These 16 cases made up less than 3 percent of our sample, yet accounted for over 23 percent of all the samples' debts. We included these 38 cases in our overall analysis, and then made the same analysis without the cases to highlight the impact they had on the profile (see enclosure II).

Complete information was not available for every case in our sample; for instance, not every individual indicated employment status or prior years' earnings. Our averages are based on the number of cases which contained the particular data element in question.

RESULTS OF ANALYSIS

The following pages highlight the results of our analysis which is included as enclosure II. A regional analysis of bankruptcy cases is included as enclosure III.

Length of time from receiving loans to filing for bankruptcy

The exact date when the student left school or graduated generally could not be determined from the information available. For example, information for 136 students showed that 89 graduated from and 47 dropped out of school. Another 443 students were either still in school or their status was unknown. Since sufficient information was not available to determine when a student graduated or ceased to be a half-time student, we determined the time between the date of the student's last loan and the date the bankruptcy petition was filed. This span normally includes time for the students to complete their education and a grace period of 9 to 12 months before making loan repayments. Information that was available for 573 individuals showed that the average time was 41 months. The range was from zero--for an individual who filed for bankruptcy in the same month he received his loan--to 130 months.

In 19 cases, over 3 percent, the students filed for bankruptcy while still in school. The average time between the students' last loan and filing for bankruptcy was 21 months. For five of these students the educational debts were the only debts listed in the bankruptcy petition. Overall, the 19 students had average educational debts of \$5,470 which were about 28 percent of the students' total debts.

Type of school attended

The following table shows the type of educational institution that the students were attending at the time they received a guaranteed student loan.

<u>Type of institution</u>	<u>Number of students receiving loans</u>	<u>Percentage of total</u>
4-year public	230	35.5
4-year private	129	19.9
2-year public	48	7.4
2-year private	4	.6
Proprietary	77	11.9
Vocational/technical	37	5.7
Graduate	6	.9
Other (unknown, foreign, etc.)	<u>117</u>	<u>18.1</u>
Total	<u>648</u>	<u>100.0</u>

It should be noted that we did not determine whether the educational institution was the lender in the above cases, nor did we obtain information on the percentage of loans that were made to students attending the various types of institutions.

Employment status and earnings

At the time of filing their bankruptcy petitions, 411 individuals (72 percent) stated they were employed while 156 (28 percent) stated they were unemployed. Of those unemployed, 22 listed their occupations as housewife, and 19 indicated that they were still in school. The following table summarizes the employment status indicated by five or more individuals.

<u>Occupation</u>	<u>Number</u>	<u>Occupation</u>	<u>Number</u>
Teacher	43	Accountant	9
Clerk	34	Counselor	8
Salesman	25	Nurse	8
Housewife	22	Attorney	7
Student	19	Laborer	6
Manager/ Assistant Manager	16	Soldier	5
Secretary	10	Carpenter	5
Mechanic	10	Supervisor	5
		Truck Driver	5

Other occupations occurring less frequently included buyer, bus driver, computer operator, construction worker, cook, draftsman, engineer, firefighter, and machinist. Also

B-164031(1)

listed were doctor, dentist, psychologist, and several other occupations in the medical field.

In addition, the earnings for 1 and 2 years prior to filing bankruptcy as listed on the bankruptcy petitions are shown below.

<u>Income</u>	<u>2 years before</u>	<u>1 year before</u>
\$ 0	95	65
1- 5,000	187	156
5,001-10,000	189	212
10,001-15,000	61	85
15,001-20,000	7	20
Over 20,000	<u>4</u>	<u>6</u>
Totals (note a)	<u>543</u>	<u>544</u>

a/One individual reported earnings for 1 year prior to filing but not for 2 years prior.

The above shows that overall the individual earnings increased in the year prior to filing for bankruptcy. For the year prior to filing, 111 individuals (20 percent) had incomes in excess of \$10,000; for 2 years prior to filing, 72 individuals (13 percent) had incomes in excess of \$10,000. The average earnings for the 543 individuals 2 years prior to filing for bankruptcy were \$5,361; for the year prior to filing, the average earnings for all individuals were \$6,490. However, when individuals with no income were excluded, the average earnings increased to \$6,498 and \$7,371 for the respective years.

Debts

Total debts for the entire sample averaged \$20,115, categorized as follows.

--Priority (A-1) = \$479.

--Secured (A-2) = \$7,550.

--Nonpriority, unsecured (A-3) = \$12,086.

The average debts for the individuals engaged in business were higher in all categories than for the sample as a whole. Total debts for the business bankruptcies averaged \$61,612. For the 16 cases we identified with exceptionally high debts,

the total debts averaged \$167,491. In almost all cases, these debts resulted from business-related activities or from personal liability as a result of accidents. When the 22 business and 16 high-debt cases are excluded, the average total debt drops to \$14,115.

In 520 cases we were able to identify educational loans and relate them to total nonpriority debts. For 184 of these cases (over 35 percent) educational debts accounted for 60 percent or more of all nonpriority, unsecured indebtedness. For 41 cases (8 percent) educational debts were the only debts listed by the petitioner, and in nine other cases, educational debts were the only nonpriority, unsecured debts listed. For these 50 cases, total debts averaged \$6,954, 93 percent of which was educational.

We computed the average guaranteed student loan made to all individuals in our sample based on the information furnished by the Office of Education and the guarantee agencies; the average loan was \$2,588. Individuals often received more than one loan, and the total amounts loaned ranged from \$200 to \$10,000. The average bankruptcy claim paid by the Office of Education or the guarantee agency was \$2,292. This would indicate that, on the average, borrowers are repaying little on these loans prior to filing for bankruptcy.

Federal obligations other than guaranteed student loans were noted in 17 percent of our sample. National Defense/Direct Student Loans and Health Professions Student Loans were evident in 81 and 4 cases, respectively. The average loan amounts listed were \$2,310 and \$2,962. Fourteen individuals sought relief from obligations--averaging \$904--to the Veterans Administration for overpayment of veterans benefits. Three individuals listed Small Business Administration loans, averaging \$54,191.

Observations

Based on our sample of bankruptcy petitions and program data we noted that:

- The average guaranteed student loan made was for \$2,588 and the average claim paid to lenders was \$2,292. This indicates that little is being repaid on these loans.
- In addition to guaranteed student loans, other Federal and private loans averaging about \$1,600 were also included in bankruptcy petitions.
- About 8 percent of the bankruptcy petitions listed educational loans as the only indebtedness.

B-164031(1)

--Over 3 percent of those filing were still in school.

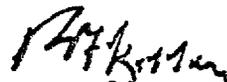
--Thirty-five percent of the individuals had educational debts which represented 60 percent or more of the total unsecured debts.

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We did not obtain formal comments from Office of Education officials but have discussed our report with them and considered their comments.

This letter is also being sent to the Chairman of the Subcommittee on Civil and Constitutional Rights, House Committee on the Judiciary.

Sincerely yours,


Acting Comptroller General
of the United States

Enclosures - 3

REGIONAL DISTRIBUTION OF
SAMPLE GUARANTEED STUDENT LOAN BANKRUPTCIES
BY LOCATION OF COURT

			<u>Number in sample</u>
1. <u>New England</u>	Connecticut (23)	New Hampshire (3)	51
	Maine (4)	Rhode Island (2)	
	Massachusetts (17)	Vermont (2)	
2. <u>Mid Atlantic</u>	D.C. (1)	New Jersey (36)	185
	Delaware (0)	New York (108)	
	Maryland (5)	Pennsylvania (35)	
3. <u>South</u>	Alabama (2)	Mississippi (2)	89
	Arkansas (3)	Missouri (6)	
	Florida (15)	North Carolina (6)	
	Georgia (17)	South Carolina (0)	
	Kentucky (5)	Tennessee (9)	
	Louisiana (4)	Virginia (12)	
		West Virginia (8)	
4. <u>Midwest</u>	Illinois (68)	Minnesota (4)	167
	Indiana (13)	Ohio (31)	
	Michigan (21)	Wisconsin (30)	
5. <u>Plains and Rocky Mountains</u>	Colorado (6)	Nebraska (3)	37
	Idaho (3)	New Mexico (2)	
	Iowa (4)	Oklahoma (3)	
	Kansas (7)	South Dakota (2)	
	Montana (3)	Texas (4)	
	N. Dakota (0)	Utah (0)	
		Wyoming (0)	
6. <u>West</u>	Alaska (0)	Nevada (0)	<u>118</u>
	Arizona (9)	Hawaii (1)	
	California (70)	Oregon (15)	
		Washington (23)	

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a/One petition was filed in Canada producing a total sample size of 648.

ANALYSIS OF BANKRUPTCY CASES

	Complete sample	Complete sample less 22 business bankruptcies (note a)	Complete sample less business bankruptcies and 16 cases with highest un- secured, nonpriority debts (note b)
Cases (less chapter 13s) (note c)	d/579	557	541
Average number of months between last loan and filing for bank- ruptcy	41.2	40.9	40.5
Employment status:			
Employed	411	395	383
Unemployed	156	152	148
Average prior years' earnings			
2 years prior	\$ 5,361	\$ 5,323	\$ 5,271
1 year prior	\$ 6,490	\$ 6,447	\$ 6,378
Average debts:			
Priority (A-1)	\$ 479	\$ 376	\$ 177
Secured (A-2)	\$ 7,550	\$ 6,906	\$ 5,092
Unsecured nonpriority (A-3)	\$12,086	\$11,262	\$ 8,846
Total (A-1 + A-2 + A-3)	\$20,115	\$18,544	\$14,115
Educational (included in A-3)	\$ 4,151	\$ 4,112	\$ 4,138
Percentage of unsecured, non- priority debts represented by educational debts:			
100%	50	50	50
80 - 99%	51	50	50
60 - 79%	83	82	82
40 - 59%	94	94	94
20 - 39%	121	118	117
Less than 20%	121	111	96
Average assets	\$ 5,364	\$ 4,640	\$ 4,454
Average guaranteed student loan made	\$ 2,588	\$ 2,582	\$ 2,583
Average guaranteed student loan claim paid	\$ 2,292	\$ 2,306	\$ 2,317

a/The sample included 22 cases where the petitioner filed as an individual engaged in business. These business bankruptcies composed 3.8 percent of the sample, yet accounted for 11.2 percent of the total debts.

b/Some petitions in the sample listed debts which were greatly in excess of the majority of the cases. There were 16 cases for which the A-3 debts (unsecured, nonpriority) were \$40,000 or more. These 16 cases composed 2.8 percent of the sample, yet accounted for 23.2 percent of the entire sample's debts.

c/Twenty-seven of the cases in the sample were filed as chapter 13 wage-earner plans. Under such a plan, designed to liquidate all debts in 3 years, the bankruptcy court determines what portion of the petitioner's wages can be applied to outstanding debts. These cases were not included in our analysis because the individual's debts are not discharged as in regular bankruptcy.

d/Complete information was not available for every case in our sample. Our averages are based on the number of cases which contained the particular data element.

REGIONAL ANALYSIS OF BANKRUPTCY CASES (note a)

	<u>West</u>	<u>Plains and Moun- tains</u>	<u>Mid- west</u>	<u>South</u>	<u>Mid- Atlantic</u>	<u>New England</u>
Cases (less chapter 13)	112	33	140	73	172	49
Average number of months between last loan and filing for bankruptcy	36.7	41.4	37.6	45.2	47.1	34.3
Employment status:						
Employed	75	22	106	59	115	34
Unemployed	32	8	33	11	57	15
Average prior years' earnings:						
2 years prior	\$ 5,373	\$ 5,510	\$ 5,052	\$ 6,634	\$ 5,317	\$ 4,471
1 year prior	\$ 6,263	\$ 5,953	\$ 6,452	\$ 8,030	\$ 6,407	\$ 5,520
Average debts:						
Priority (A-1)	\$ 427	\$ 70	\$ 479	\$ 1,327	\$ 323	146
Secured (A-2)	\$ 8,148	\$ 5,802	\$12,881	\$ 7,206	\$ 4,166	\$ 4,322
Unsecured nonpriority (A-3)	\$12,684	\$ 9,634	\$10,544	\$14,884	\$10,540	\$17,958
Total (A-1 + A-2 + A-3)	\$21,259	\$15,506	\$23,904	\$23,417	\$15,029	\$22,426
Educational (included in A-3)	\$ 4,371	\$ 4,189	\$ 3,735	\$ 3,305	\$ 4,309	\$ 5,320
Percentage of unsecured, nonpriority debts repre- sented by educational debts:						
100%	5	2	5	2	26	10
80 - 99%	6	3	7	3	26	6
60 - 79%	25	7	19	10	16	6
40 - 59%	13	7	32	9	25	8
20 - 39%	33	7	28	18	30	5
Less than 20%	20	5	34	18	32	12
Average assets	\$ 9,023	\$ 4,589	\$ 5,912	\$ 5,980	\$ 3,089	\$ 3,076
Average guaranteed student loan made	\$ 2,253	\$ 2,205	\$ 2,258	\$ 2,157	\$ 3,066	\$ 3,516
Average guaranteed student loan claim paid	\$ 1,874	\$ 2,049	\$ 2,026	\$ 1,776	\$ 2,829	\$ 3,045

a/Represents analysis of complete sample, including business bankruptcies and 16 cases with highest unsecured, nonpriority debts.